

**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
August 30, 2008 Through July 31, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**KNOX COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**August 30, 2008 Through July 31, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for Knox County Sheriff for the period August 30, 2008 through July 31, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$7,534,677 for the districts for 2008 taxes, retaining commissions of \$311,466 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,176,528 to the districts for 2008 taxes. Taxes of \$493 are due to the districts from the Sheriff.

**Report Comment:**

- The Sheriff Did Not Maintain A County Revenue Bond

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable J.M. Hall, Knox County Judge/Executive  
Honorable John D. Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the Knox County Sheriff's Settlement - 2008 Taxes for the period August 30, 2008 through July 31, 2009. This tax settlement is the responsibility of the Knox County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Knox County Sheriff's taxes charged, credited, and paid for the period August 30, 2008 through July 31, 2009 in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Did Not Maintain A County Revenue Bond

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Knox County, Kentucky, and the Commonwealth of Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

April 19, 2010



KNOX COUNTY  
JOHN D. PICKARD, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period August 30, 2008 Through July 31, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 859,912	\$ 1,375,131	\$ 2,813,150	\$ 962,471
Tangible Personal Property	168,570	208,332	259,018	235,220
Fire Protection	2,772			
Increases Through Exonerations	20	47	11	22
Franchises	114,448	148,692	238,717	
Additional Billings	5,972	9,462	22,096	8,623
Unmined Coal - 2005 Taxes	18	24	68	22
Unmined Coal - 2008 Taxes	5,675	8,902	21,553	6,352
Oil and Gas Property Taxes	81,729	128,217	310,420	91,477
Omitted Taxes	723	1,134	2,747	809
Penalties	13,218	20,559	41,270	14,475
Adjusted to Sheriff's Receipt	(265)	(220)	(1,905)	(260)
Gross Chargeable to Sheriff	<u>1,252,792</u>	<u>1,900,280</u>	<u>3,707,145</u>	<u>1,319,211</u>
<u>Credits</u>				
Exonerations	21,351	30,137	52,876	16,703
Exonerations- Prior Year Additional	53	82	200	60
Discounts	14,407	21,857	42,439	16,389
Delinquents:				
Real Estate	52,322	84,109	181,679	58,438
Tangible Personal Property	6,917	8,549	11,869	11,333
Unmined Coal	661	1,037	2,511	740
Exonerations Unmined Coal	<u>1,073</u>	<u>1,683</u>	<u>4,075</u>	<u>1,201</u>
Total Credits	<u>96,784</u>	<u>147,454</u>	<u>295,649</u>	<u>104,864</u>
Taxes Collected	1,156,008	1,752,826	3,411,496	1,214,347
Less: Commissions *	<u>49,418</u>	<u>73,691</u>	<u>136,460</u>	<u>51,897</u>
Taxes Due	1,106,590	1,679,135	3,275,036	1,162,450
Taxes Paid	1,098,824	1,668,837	3,259,290	1,149,577
Refunds (Current and Prior Year)	<u>7,766</u>	<u>10,074</u>	<u>15,533</u>	<u>12,817</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 224</u>	<u>\$ 213</u>	<u>\$ 56</u>

\*\*

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

KNOX COUNTY  
 JOHN D. PICKARD, SHERIFF  
 SHERIFF'S SETTLEMENT - 2008 TAXES  
 For The Period August 30, 2008 Through July 31, 2009

\* Commissions:

10% on	\$	10,000
4.25% on	\$	4,088,450
4% on	\$	3,411,496
1% on	\$	24,731

\*\* Special Taxing Districts:

Library District	\$	5
Health District		9
Extension District		6
Soil District		154
Ambulance District		12
Artemus Fire District		38
		<hr/>
Due Districts	\$	<u>224</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT

July 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Knox County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 31, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Knox County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2008 through July 31, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 6, 2009 through July 31, 2009.

Note 4. Interest Income

The Knox County Sheriff earned \$8,136 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of April 19, 2010, the Sheriff owed \$137 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Knox County Sheriff collected \$76,422 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Knox County Sheriff collected \$1,370 of advertising costs and \$5,460 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 31, 2009  
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2004	\$3,591
2005	\$3,087

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and KRS 393.110 requires abandoned funds are sent to the Kentucky State Treasurer. The Sheriff sent a written report to the Treasury Department and submitted the 2004 escrowed amount, \$3,591 to the Kentucky State Treasurer in accordance with KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive  
Honorable John D. Pickard, Knox County Sheriff  
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Knox County Sheriff's Settlement - 2008 Taxes for the period August 30, 2008 through July 31, 2009, and have issued our report thereon dated April 19, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knox County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Knox County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Governmental Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Sheriff's Settlement - 2008 Taxes for the period August 30, 2008 through July 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Did Not Maintain A County Revenue Bond

The Knox County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Knox County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

April 19, 2010

COMMENT AND RECOMMENDATION



KNOX COUNTY  
JOHN D. PICKARD, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period August 30, 2008 Through July 31, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Maintain A County Revenue Bond

The Sheriff did not have a county revenue bond for 2008 tax collections. The highest amount of monies maintained by the Sheriff on hand and in the official bank account was \$4,379,541 on December 9, 2008. KRS 134.250 states the Sheriff shall annually, before he proceeds to collect the county levy, execute bond to the Commonwealth with one (1) or more sufficient sureties in the minimum sum of ten thousand (\$10,000), conditioned for the faithful performance of his duties and to pay over in due time to the proper person, as directed by the court, all monies collected by him. This bond shall be approved by order of the fiscal court, and when approved, shall be recorded by the fiscal court in its minutes and filed by the fiscal court with the county clerk. We recommend the Sheriff obtain a county revenue bond which is approved by the fiscal court and recorded in the minutes.

*Sheriff's Response: Fiscal Court had always carried the bond but when insurance companies changed this bond got dropped by accident. After we were made aware of this, Fiscal Court corrected the problem and they are now carrying the bond for us. The bond is through KACO.*

